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LOL Journal - Are you “all in”? It matters.

Are you “all in”? Think about this question concerning your various involvements: team, firm, career, marriage, family, friendships, etc. The underlying principle is commitment. To what are you committed? Where are you merely involved? And, where are you deeply committed?

I was thinking about this question during a recent FCG team meeting. We start our meetings with a “check-in” which allows each member to briefly describe their state of mind. Are they excited, apprehensive, bored, sad, irritated, or what? The theme from our recent check-in involved several team members who are dealing with aging parents, which is challenging. I’m one of them (that is, child not parent...) My father-in-law is one of the financial casualties from the ‘08 financial crisis, so now my wife and I are helping out. I explained to my team mates that I recently converted from “involved” to “committed” regarding this situation. Involved looked like, “Jeez, why does my wife feel so responsible for a man who did not raise her—and never made her a top priority in his life?” In other words I resisted really moving to the “all in” position of saying, “Hey, my wife is committed to helping him and therefore I am too.” What are those traditional marriage vows? Sickness and health, richer or poorer? As I made the mental shift from “involved” to “committed” I felt a certain calm come over me. Why? Because now I was no longer conflicted. The path of helping her father, especially as he begins to experience dementia, will not be easy, but I’m no longer burning mental energy in the divided state of one foot in, one foot out. I’m in. For better or for worse.

Similarly, FCG is a strong team because of commitment. In the past several years, each of us has come to the “all in” mindset. We have our differences and our share of challenges, but I never feel like my team mates have one foot in, and one foot out. (Note to team mates: if I wrong about this, please enlighten me before I post this blog. ☺)

As it relates to clients, FCG has often used a sailing analogy to define this issue of commitment. We worked with a firm that had come upon hard times and was fraying around the edges. The two founders were negotiating with several key investment professionals about the direction of the firm, basic strategies, roles and responsibilities, and rewards. The sailing image worked as follows:

Who wants to get aboard the ship and make the journey? The sea is rough, the weather stormy, and there is no guarantee of safe passage. What do you need to know to commit?

FCG coached the two founders by saying, “You have to paint a compelling picture of the other shore. What is waiting for the crew members if you make this journey safely? Why would they want to board the ship and risk it? What are the rewards that they will get for making the journey? And what is each crew member’s role on board?”

When sailing conditions are easy, people can laze about and the winds will take you comfortably to the other shore. But when the seas are stormy, people's lives are at stake (i.e. their financial lives), and each crew member must perform his duties seamlessly. There must be a clear destination, a thoughtful strategy, and careful execution. And there must be the flexibility to adjust and make course corrections.

The founders and the staff members seemed quickly and easily to work with this sailing analogy. They began to ask good questions about what it would take for them to be "all in" and board the ship. They debated what the other shore looked like, the merits of the strategy, the rewards that awaited them, and the experience of working together. Did they want to spend "time at sea" with these people? The debate was a good one. There was a real exchange about contingencies: ***I am in, IF the following conditions are in place.*** That is the essence of a good negotiation. People want to make informed bets: if I take this risky trip, what can I expect? There are no guarantees, but there can be clarity about the expectations, risks, and payoffs.

FCG has had many discussions like this with clients. The financial seas are very choppy these days, and most firms are weathering the storm as best they can. I remember one senior team in particular that was deeply soul searching about their future. In one intense meeting, the CEO asked the senior staff if they were committed to the firm in these tough times. Each staff member in turn stated that they were up for the challenge. It would be difficult but they were "in." About one week later, I learned that a key team member had accepted a job with a competitor. Clearly, this person's commitment had been "provisional;" he was "in" if nothing better came along! (A bit like the bar hopper, who says to the nearby woman, "My wife is married, but I'm single.")

Another firm with a very good track record and reputation expressed some concerns about trust at the senior level. FCG offered to work with the three top leaders on exploring the nature of the issues and resolving them. The response from one senior member was, "We've tried that route and nothing really came of it." Shortly thereafter, the senior-most leader left suddenly for a job at another firm. Meanwhile, the culture of the firm is starting to unravel. And now several other senior people have left. The ship is taking water, and people are manning the life boats.

Conversely, FCG has worked with firms where the senior staff really is "all in." One of our Focus Elite firms¹, Disciplined Growth Investors, hit some choppy waters several years ago. One of the senior team members had some personal issues that had affected his ability to contribute. The firm's CEO asked FCG to help the senior team navigate through the rough patch. We asked them, "Are you all in?" The answer was a resounding, Yes. And we believed them. In the weeks that followed, the team rallied around and supported their team member. He spoke to them honestly and openly about the nature of his issues, and they developed a plan to work through it. In the aftermath of this episode, the team is stronger than ever. Their investment performance never suffered during this period and remains stellar for long-term performance. The CEO commented on this experience,

¹ See our white paper for a description of the Focus Elite firms and the characteristics of their cultures, "Linking culture to Success" on our website: www.focusgroup.com

*"I am amazed at how the investment team is performing. We really pull together in difficult markets. No finger-pointing, just a shared intense desire to get at the facts of the investment environment. I pinch myself on a regular basis."*²

So, is FCG suggesting that investment professionals should blindly shout, "I'm all in?" (Visual aid: lemmings) Certainly not. There are times when it is appropriate to bow out. FCG has witnessed many separations, in which both parties are better for it. We've seen situations in which long-standing teams reach a point where it makes sense for one or more of the team members to leave. Conditions change and demand a new commitment.

The real point is clarity. Teams, like marriages, do work better when there is genuine commitment. But pseudo-commitment is worse than no commitment.

The same commitment characterizes CIO Dan Davidowitz and his investment team at Polen Capital. They had the number 1 fund in 2015, up 14.6%.³ Dan's comment about his team:

*Polen Capital's culture today is far different than what it was just 10 years ago. Back then, the firm's Founder/CEO, who called himself a benevolent dictator, set a tone of underappreciation and sometimes even fear. In a difficult period from 2005-2008, firm AUM declined nearly 90% due to a combination of weak relative performance and poor business decisions. But the three key lieutenants--led by then COO Stan Moss, who believed deeply in the investment philosophy and the team--decided that they would stick together and ride out the storm. Four years later, the founder passed away after a short, but difficult bout with cancer. The morning of Mr. Polen's passing, Moss who became CEO, gathered everyone together to discuss the difficulty the firm was about to endure. He asked for everyone to work together to get us to the other side. Today, the firm's 2nd generation leadership and culture are based on protecting and growing client assets, open and above-the-line communication and attracting and retaining the best talent in the industry. Today it is rare when someone is not "all in." And when that happens, they stand out and soon leave.*⁴

It goes without saying that Buffett and Munger are "all in" at Berkshire Hathaway. They trust each other completely and their record speaks volumes about the power of commitment. One interviewer wrote about their partnership, "You don't get to this size without being incredibly smart with money and

² Email from Fred Martin, CEO of DGI on March 7, 2016

³ And the No. 1 Stock Fund of 2015 Was...Polen Growth gained 14.6% from this article:

<http://www.wsj.com/articles/and-the-no-1-stock-fund-of-2015-was-1452482736> Polen commented about their performance: Since inception on 1/1/1989, Polen Capital has returned 13.53% net of fees annually which equates to nearly a 31-fold return over the 27 years. In addition, the Portfolio's construction (i.e. concentration, low turnover and high quality holdings) remains the same. Our relative performance rankings on alpha, Sharpe ratio, and downside capture are all top decile.

⁴ Quote from email by Dan Davidowitz received on March 7, 2016.

where to invest it. All that said, Buffett and Munger still rate trust over knowledge, and they feel if you exhibit trust, you will be more successful.”⁵ And in Munger’s words, “By the standards of the rest of the world, we overtrust. So far it has worked very well for us. Some would see it as weakness.”⁶ Trust is the key component of being “all in.”

So, are you “all in”? Are your team members? If not, why not? Have the tough discussion. What stands in the way of a full blown, “all in” commitment? It requires a thoughtful, honest discussion, but at some point, as Munger suggests, there is a leap of faith. You go as far as you can with logic and reason, and then you simply trust and commit. I have found repeatedly that William Murray had it right:

“Until one is committed, there is hesitancy, the chance to draw back, always ineffectiveness. Concerning all acts of initiative (and creation), there is one elementary truth that ignorance of which kills countless ideas and splendid plans: that the moment one definitely commits oneself, then Providence moves too. All sorts of things occur to help one that would never otherwise have occurred. A whole stream of events issues from the decision, raising in one’s favor all manner of unforeseen incidents and meetings and material assistance, which no man could have dreamed would have come his way. Whatever you can do, or dream you can do, begin it. Boldness has genius, power, and magic in it. Begin it now.”

The importance of commitment for investment teams seems obvious: in these difficult markets, you will drive yourself nuts if you keep second guessing your philosophy, process, execution or talent. Yes, you must be willing to change with the times and circumstances. But once the team has debated these issues and decided, then commitment takes over. You rest easy knowing that you are playing the long game and that your team members and their bets are sound. Commitment doesn’t guarantee victory, but it does deliver peace of mind. And that gives you a better shot at victory.

So, as I drove to meet my father-in-law for breakfast this week I was calm. I’m “all in.” However rough the waters become, we will give it our best efforts. There is peace and honor in doing so. And “Providence,” if you are listening, we’ll take all the help you can give us! Always open to a little divine assistance.

Committed to curiosity,

JW

⁵ From this article, <http://thesaleshunter.com/1-key-to-success-per-warren-buffett-and-charlie-munger/>

⁶ From this article, <http://www.gurufocus.com/news/289127/trust-works-for-berkshire-hathaways-charlie-munger>